SBP Staff Notes

04/20

Enhancing Financial Inclusion through Pakistan Post

Dr. Waqas Ahmed*
Talha Nadeem**
Khurram Ashfaq Baluch***

June 2020

Disclaimer
Views expressed in this document belong to the author(s) only, and by no means a reflection of the views of the State Bank of Pakistan as an institution. All errors and omissions are the sole responsibility of the author(s).

---

*: Additional Director, Economic Policy Review Department, SBP.
**: Deputy Director, Economic Policy Review Department, SBP.
***: Joint Director, Economic Policy Review Department, SBP.
Authors are thankful to Dr. Ali Choudhary (Research Advisor, SBP) and Dr. Omar Farooq Saqib (Director, SBP) for their valuable feedback.

	Contents	Page No.

1. Introduction

Access to formal financial institutions for the masses in Pakistan is still quite low. One of the reasons is that formal financial activities are often clustered around bigger hubs of formal economic activity; the country is large and diverse with a bulk of population engaged in the informal sector. Due to limited access, Pakistan's formal savings rate has remained low over the past decade as well. The low level of domestic savings is particularly problematic, and has not improved notably in spite of the emphasis on financial inclusion and interventions like the National Financial Inclusion Strategy (NFIS) launched in 2015. In line with this strategy, the government and State Bank of Pakistan (SBP) have been pursuing financial inclusion as a strategic objective to promote inclusive economic growth in the country. While some progress has been made since the inception of NFIS, Pakistan still lags behind on a number of financial inclusion indicators compared to other countries in the region and beyond. For example, account holding at financial institutions doubled in 2017 as compared to 2011, but was still far lower than the average of South Asia and the world (**Table 1**).

At present, the onus of mobilizing deposits and savings in the country mainly lies with commercial banks and the Central Directorate of National Savings which executes various National Savings Schemes and prize bonds. As such, there are relatively few formal avenues for financial services.

Table 1: Account at a Financial Institution*

percent

	2011	2014	2017
Afghanistan	9	10	15
Pakistan	**10**	**13**	**21**
Nepal	25	34	45
Bangladesh	32	31	50
Sri Lanka	69	83	74
India	35	53	80
South Asia	**32**	**47**	**70**
World	51	62	69

* The percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution, or report personally using a mobile money service in the past 12 months

Data source: World Bank

The potential of the Pakistan Post to enhance financial inclusion remains largely untapped. While the Pakistan Post already offers some financial services through a Postal Savings Bank (PSB), its performance over the past couple of years has been underwhelming. By contrast, the use of post office infrastructure network has been effective in promoting financial inclusion in various parts of the globe. This is demonstrated by the experience of countries such as Japan, China, Brazil, Russia, India, and others.

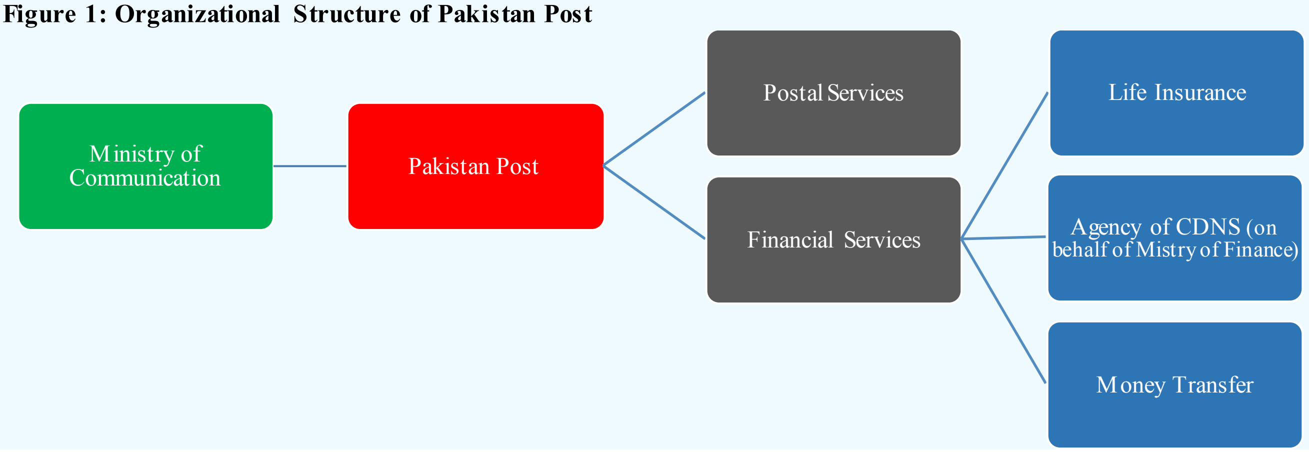
The extension of post office functions into the non-traditional domain caters to many issues. Apart from generating employment opportunities at the local level, the expanded outreach and footprint of the post office has potential strategic value. It can lead both to better environment for competition and implementation of nation-wide policies with more effective results. With the effective inclusion of Pakistan Post in provision of extended financial services, NFIS targets can be met rather efficiently as financial outreach can stretch to the rural and far-off areas where the post office has been providing its limited services for decades, thus harboring the trust of residents.

The purpose of this note is to: (a) explore the financial services offered by the Pakistan Post; (b) shed light on factors which give the post office an edge over other financial institutions – namely affordability, penetration, trust, and practicality; (c) draw on the experiences and strategies adopted in other countries to use their post office setups for provision of financial services, with Japan being a notable success story; and (d) suggest the potential way forward for enhancing financial inclusion from the platform of Pakistan Post.

2. Overview of financial services offered by Pakistan Post

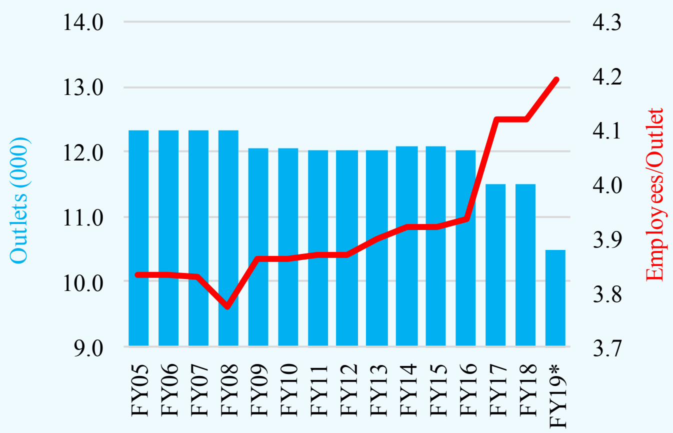
The Pakistan Post is a government owned entity that primarily provides postal services to around 20 million consumers. In addition to postal services, the organization also provides life insurance instruments, performs agency function on behalf of Central Directorate of National Savings (CDNS), and collects taxes and utility bills, money and remittance transfer facility without taking in deposits (**Figure 1**).

Figure 1: Organizational Structure of Pakistan Post



According to the Pakistan Economic Survey 2018-19, the Pakistan Post had around 10,496 post offices spread throughout the country in 2018-19, down from 12,339 outlets in FY05. The decline in the number of post offices during the period was, however, not accompanied by a proportional fall in number of employees. In fact, the ratio of employees per post increased from 3.8 in FY05 to 4.2 by FY19 (**Figure 2**). Meanwhile, the number of letter boxes declined, from 19,136 letter-boxes in FY09 to 12,803 in FY19. This points to an overall contraction of postal activities over the years. At the same time, private courier companies have penetrated the postal market and, with the advent of ICT, are providing stiff competition. The impact is reflected in the bottom line of the Pakistan Post: the entity reported substantial net losses of around Rs 7.5 billion and Rs 9.3 billion in FY16 and FY17.

Figure 2: Pakistan Post Outlets and Employees



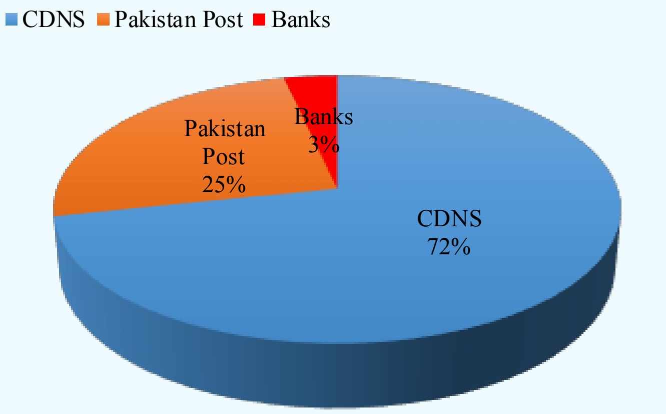
* Provisional

Data source: PBS; Pakistan Economic Survey, 2018-19

In terms of offerings, Pakistan Post provides three distinct financial services. Overall, the post has maintained its share in provision of Saving Certificates and Accounts on behalf of CDNS; however, its own financial business has been on the downward trajectory. Following are some details:

I. Transaction services for buying and selling of instruments on behalf of CDNS. Data of gross investment in National Savings Scheme shows that Pakistan Post contributes 25 percent to financial inflow under these schemes (**Figure 3**). This share has remained stable over the past decade.

Figure 3: Share of Pakistan Post in Mobilising Saving on Behalf of CDNS (FY08-18)

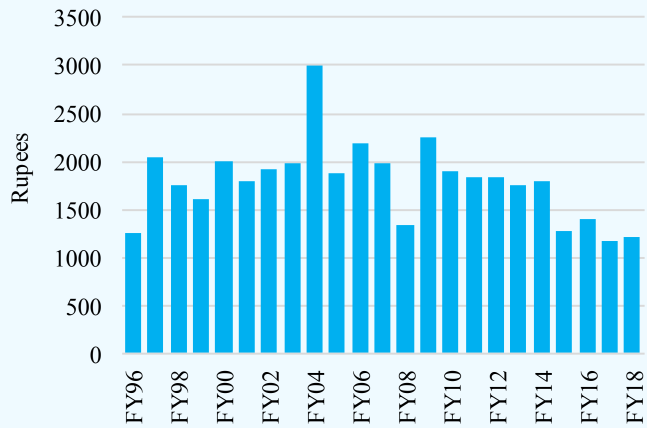


Data source: Pakistan Bureau of Statistics

II. Transfer of money from within the country and remittance inflow from abroad. The details of remittance business of Pakistan was not readily available, so this study focuses on domestic money order transactions. Total transactions have declined considerably since FY08, when 9.3 million were recorded. By FY17, the money orders had fallen to 4.8 million only, which equates to 48.2 percent decrease. In nominal terms, the per-transaction value of money transfer has increased by 4.4 times from FY96 to FY17. However, if these values are discounted taking FY96 as the base year, then value per transaction has effectively declined by 5.5 percent over the period (**Figure 4**).

III. Provision of postal life insurance instruments. The number of new policies issued by Pakistan Post has seen a significant decrease over the years. Whereas the institution issued 30,968 fresh policies in FY09, their volume nearly halved over the subsequent decade to just 15,458 new policies in FY18.

Figure 4: Money Transferred through Money Orders, Adjusted for CPI Inflation (FY96=100)



Data source: Pakistan Bureau of Statistics

3. Key factors supporting post office led financial inclusion

Post office led financial inclusion may lead to economic empowerment and development – especially in the rural and other underserved areas. At the institutional level, certain factors tend to give the post office an edge over many other financial institutions, both in general across the globe, and also in Pakistan's case. They are linked to affordability, penetration, trust, and practicality (**Table 2**).

3.1 Affordability

Post offices are often structured like non-profits, and have a mission to achieve universal access; they may even be subsidized for this purpose (Cull et al, 2008). This is in contrast to conventional financial institutions that are motivated primarily by profit motives, and for whom the cost of accommodating small-scale savers and borrowers can act as a deterrent.

Table 2: Reasons for Not Having an Account at a Financial Institution in Pakistan* (2017)

Percent**	
Insufficient funds	50.2
Financial services are too expensive	**21.2**
Financial institutions are too far away	**18.3**
Lack of necessary documentation	17.2
Someone in the family has an account	15.0
Lack of trust in financial institutions	**14.3**
Religious reasons	13.0
No need for financial services only	4.5

* among respondents without an account at a financial institution

** Respondents could give multiple reasons for not having an account. This explains why the sum of all categories exceeds 100 percent

Data source: World Bank

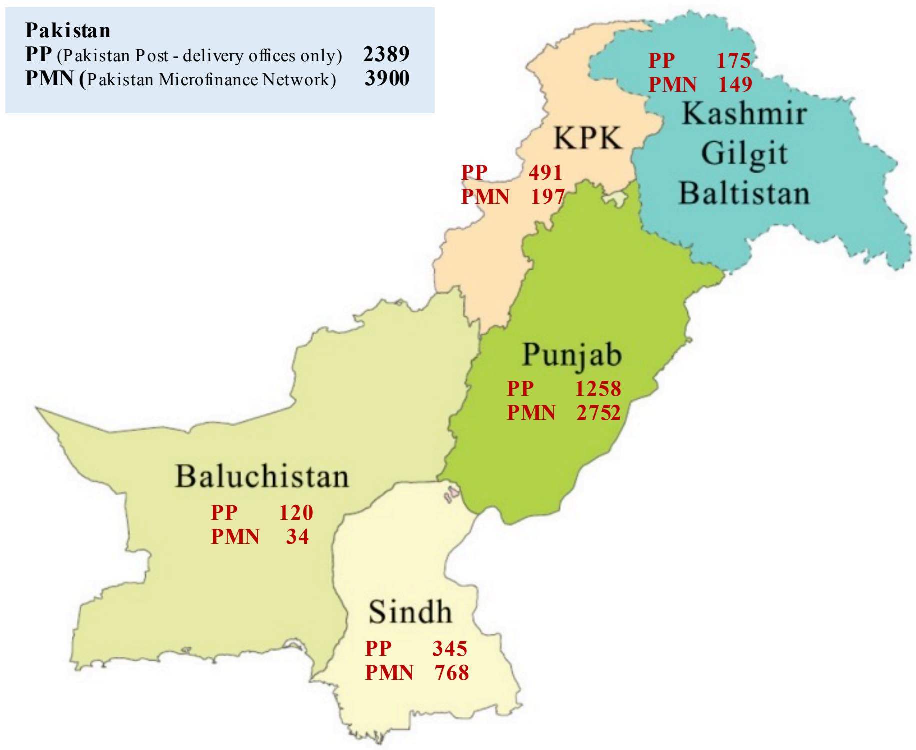
Moreover, in emerging economies, it may be simpler and cheaper to mobilize small savings through postal savings banks, since less educated, low-income groups may find it hard to grasp how alternatives such as pension funds work (Nasution, 2018). Postal financial inclusion allows people who were previously cut off from formal financial services to gain access, either through direct provision of financial services or by utilizing a postal channel that connects with partner financial institutions (Clotteau & Measho, 2018). Cross-country evidence indicates that post offices are likelier to accommodate the financial needs of individuals who are poor, less educated, or outside the labor force compared to conventional financial institutions (Ansón et al, 2018). Pakistan Post is deployed in a similar manner. For instance, its parcel delivery services are significantly cheaper and affordable compared to similar services offered by private courier companies.

3.2 Penetration

Pakistan Post's physical branch infrastructure consists of around 2,400 delivery post offices; 87 percent of these are located outside the five most populated cities. This can add to the 3,900 outlets of the Pakistan microfinance industry (**Figure 5**). This physical outreach is even more important in the sparsely populated and poverty stricken province of Balochistan and war-torn tribal regions of Khyber Pakhtunkhwa. There is significant role that Pakistan Post can play in these regions either in collaboration with the microfinance industry or it can take that initiative itself. Moreover, even where there is strong presence of microfinance industry, the infrastructure of

Pakistan Post can be useful in creating the needful competition for financial services that can help keep an effective check on their prices as well. In addition, the government can easily initiate targeted social sector reforms (for example financial literacy for children, young adults and women) with the staff of Pakistan Post at its side and when private agents are reluctant to engage in such reforms.

Figure 5: Outreach of Pakistan Post versus Microfinance Industry (Physical Offices)



Notes: KPK includes FATA; Kashmir Gilgit Baltistan includes Azad Kashmir and Federally Administered Tribal Areas but excludes Indian Occupied Kashmir; Punjab includes Islamabad
Data source: Microwatch, PMN and Pakistan Post

3.3 Trust

When it comes to banking, familiarity breeds trust. In a cross-country analysis using the World Bank's Findex database, survey respondents in countries with lower penetration of bank branches were more likely to report trust as a barrier to owning a bank account (Allen et. al, 2012). The literature also supports the intuition that a higher level of trust facilitates financial inclusion. It is particularly conducive for the spread of digital financial services among those who are underserved by conventional banking channels (Xu, 2019).

Putting these findings into perspective for Pakistan, the trust factor may give the post office an inherent edge in attracting previously unbanked individuals and enterprises. Initiated during the British rule, post office is one of the oldest institutions that predates Pakistan by a big margin of years. The existing setup traces its origins to the Department of Post & Telegraph set up in 1947. Importantly, it has also made few concerted efforts of late to build on its goodwill while keeping up with the times. According to Google Trends Data, searches for 'Pakistan Post' on Google's search engine increased by 1.8 times in 2019 compared to a year earlier, reflecting the increased interest of consumers in the entity following some re-branding and focus on efficiency.

3.4 Practicality

The post office is well-positioned to facilitate certain financial services, such as international home remittances. On this front, the Pakistan Post launched a remittance service in June 2019 under the umbrella of the Pakistan Remittance Initiative, in collaboration with the National Bank of Pakistan (NBP). A major incentive of the service was that neither the sender nor recipient would have to face burdensome charges or deductions on transferred amounts.; Moreover, the recipient could easily collect the funds from one of the designated 500 Pakistan Post branches or 1,500 NBP branches (for detailed perspective on delivery of remittances, see **Box 1)**. During Jul-Dec FY20, around $30.9 million of foreign remittances were reportedly routed through the Pakistan Post. If this channel picks up, it can discourage the use of *hundi*/ *hawal*a and add to the country's FX reserves.

The post office can also offer practical solutions for recurring payments, such as pensions. A recent example was the disbursement of pensions to military and family pensioners at their doorsteps from March 2020 onwards. This approach was primarily taken to discourage large gatherings at the post office and promote social distancing amid the COVID-19 threat. Anecdotal evidence suggests that initial results were mixed; while the Pakistan Post staff made a concerted effort to meet targets, some pensioners faced difficulty in transitioning to the new system, and there were also instances where postal addresses were either incomplete or outdated. That said, if the kinks in the system can be smoothed out, it may be a use case worth retaining on a regular basis to facilitate pensioners.

Moreover, Pakistan Post staff recruited from within each region may already have working relations with farmers based on the provision of postal services. As such, with adequate training, they may be better placed to assess the farmers' needs for financial services, compared to commercial bank officials who may either lack prior connections or may not be as familiar with the on-ground realities of the region. Knowledge of the farmers' activities, crop and livestock performance, and likely future cash flows may help rationalize the needs to post large amounts of collateral. The post office staff can also be a useful ally of the government in crop procurement and transfer of farm subsidies, and can help to minimize the overbearing role played by some middle-men.

Box 1: Promoting Delivery of International Remittances through Post Office and its Externalities

At present, the state of Pakistan Post is such that it needs a push to reinvigorate itself as an institution that can make a meaningful difference through its activities. Let us take an example of the initiative that can act as a bridge between the traditional role of the post office and its movement towards a financial service provider. Delivery of international remittances is one such activity that can refresh the outlook of Pakistan Post and make it ready for further provision of financial services. Given the potential where official remittances exceed US$ 20 billion in a year while a large chunk also comes in through informal transfers, let us examine how the four aspects stated above may be helpful in making this initiative a success and how the attached externalities will be instrumental over time.

The Pakistan Post launched a remittance service in June 2019 under the umbrella of the Pakistan Remittance Initiative (PRI), in collaboration with the National Bank of Pakistan (NBP). Talking about affordability, the major incentive of the service is that neither the sender nor recipient has to face any heavy charges or deductions on transferred amounts; hence, the transaction cost is minimal. Keeping in view the positive externalities, the fiscal policy can actually bear the burden of these costs as benefits usually outweigh costs by a very big margin. The recipient can easily collect the funds from one of the designated 500 Pakistan Post branches or 1,500 NBP branches.

This service can further be expanded to include all post office branches (about 2,400), many of which are in areas not served by commercial banks. Moreover, the collaborating bank can provide simple account opening and ATM services at these post office branches in addition to the delivery of funds at the households' doorsteps by the postmen. By doing so, on one hand, international remittances would largely move to the formal sector adding on to the country's FX reserves, while consolidation of savings in the formal sector would also pick up and gain traction over time.

The element of trust in the post office would also play an important role. As travelling to the nearest bank branch in many areas is a hectic task, delivery of payments at doorsteps would improve labor mobility domestically as well as internationally. More workers would find it easier to move for better job opportunities if they can smoothly send money back home to their families without any mentionable transaction costs. Since the post office is already engaged in transactions related to the Ministry of Finance's National Savings Schemes, any fiscal policy incentives, such as higher interest rates, may result in attracting further inflow of remittances and higher incentive for savings.

The practicality of such a setup of delivery of remittances through post office presents a win-win situation in many ways. Apart from catering to the mobilization of domestic savings in a formal institution, the use of these savings for many desirable purposes carries a lot of weight. For example, short term credit needs of households receiving regular remittances can be met. This can provide support for consumption-smoothing as well as improve the standard of living over time with an opportunity to spend more of consumer durables. Similarly, improving state of deposits can result in useful availability of liquidity for provision of financial services such as loans for small businesses, farm inputs, infrastructure and machinery, cottage industry and study loans for vocational training and education. Furthermore, relationship building with regular customers over time can be instrumental in mobilizing housing finance with a better scrutinizing setup, that can be crucial in reducing monitoring and associated costs over time.

Moreover, the start of collaboration with a commercial bank in delivering remittances may lead to adequate training of the post office staff for provision of financial services, while making it easier for them to transition from manual record keeping to ICT led operations. So, taking a transitioning step can actually go a long way in the case of using post office for enhancing formal financial inclusion.

4. Country Experiences

Notwithstanding the benefits, a few challenges may constrain the development of the post office as a gateway for financial services (Rillo & Miyamoto, 2016):

I. Regulatory framework: Postal services are predominantly a natural monopoly that makes it difficult to innovate under the regulatory setup.

II. Postal systems: Lack of technology in the age of ICT is a big hurdle and a lot of capital intensive changes would need to be made for efficient and effective dissemination of financial services.

III. Financial literacy of the masses: There is dire need to cultivate a financial literacy from an early age.

On this note, useful lessons can be taken from the experience of other countries that have successfully navigated past the challenges and achieved postal financial inclusion.

4.1 Japan: Traditional yet effective saving and inclusion mechanism

Japan Post Bank is part of Japan Post Group that is enlisted on the Tokyo Stock Exchange. Historically, it was a public institution until its listing in 2015. Its initial foundation are early adoption of financial services are led by the experiences of the British model of postal services.

Japan Post began providing financial services – including postal money order and postal savings – in 1875, just four years after postal services were launched in the country. The cultural aspect of encouragement for savings helped a lot in early success of the Japan Post as it automatically gained traction by providing a platform for their accumulation. These savings were invested in government bonds, bank debentures and local government bonds over time. The system promoted accumulation of savings and popularized the concept of financial services amongst the individuals. By 1910, the Post Office had expanded into the distribution of pensions. In the 1930's, the institution designed a deposit passbook for children to encourage them to get into the habit of saving. Schoolchildren were encouraged to open and maintain postal saving accounts since primary school (Rillo & Miyamoto, 2016).

After the conclusion of World War II, while the focus on country's reconstruction was extreme, the postal savings system was re-launched and savings were deposited with the Ministry of Finance. 'Teigaku' savings – guaranteed high-yielding postal savings deposits – were particularly successful in mobilizing funds since they offered more competitive rates compared to conventional banks. The savings were utilized for financing of motorways, airports and other major projects of national interest. They were also used as operating funds for SMEs and for provision of housing finance, while providing excellent source of information on the households to the government. Essentially, postal savings were a crucial part of the country's enviable growth and development in the post-war era as it led Japan into the "virtuous cycle" of economic development. This is underscored by the fact that, at its peak in 1999, the stock of accumulated postal savings in Japan was equal to 50 percent of the country's GDP (Yoshino et al, 2018).

4.2 China: Leveraging technology to drive financial inclusion

The Postal Savings Bank of China Company Limited (PSBC), formally founded in 2007 as a subsidiary of China Post Group, focuses on provision of financial services to the low-income group, SMEs and rural areas. In 2016, it went public and was listed on the Hong Kong Stock Exchange.

Leveraging its outreach of around 40,000 outlets, 70 percent of which are located in towns and villages, PSBC currently serves approximately 600 million customers. To modernize itself, the bank is fast-tracking its transformation into the data-driven digital area. Moreover, the bank facilitates in implementing the national development strategy and supports the construction of a modern economic system in the country. PSBC has transformed into one of the largest banks in China and is ranked 60th in the Forbes Global 2000 list of the world's largest public companies. Its success is also evident from top notch rating by several rating agencies such as Fitch (A+, stable), Moody's (A1, stable) etc.

PSBC has several distinct advantages over conventional banks that are reluctant to lend to aforementioned groups due to lack of collateral. Its Sannong financial service is focused on agriculture and rural areas, providing fast and effective solutions to the needs of individuals and micro-enterprises. Its strong commitment and data-driven approach to combine financing with ICT has given it a clear advantage over its rivals. In addition, PSBC has established a recruitment strategy that picks out young, local graduates who are adept at finance and also understand the ground realities of the rural areas.

4.3 Brazil: Promoting financial literacy as a first step to reach the unbanked

Correios or ECT (Brazlian Post and Telegraph Corporation) is a state-owned enterprise that is providing postal service for Brazil since 1663. It is one of the largest employers in Latin America. With a network of around 12,000 field offices, most of which are located in the country's interior, its outreach is substantial. In addition, Correios offers more than 100 products and services.

In order to promote financial literacy and promote financial inclusion in the countryside, Correios entered into a 10-year partnership with a private national bank in 2002 on the directives of the government and created Banco Postal. At the time, 45 million Brazilians in the north and west were unbanked. Around three-fourths of all bank branches were located in the southern and eastern regions of Brazil. By 2009, Banco Postal provided access to 8.8 million customers that were previously unbanked. Over 1.2 million transactions were being made daily and 0.7 million loans were disbursed.

The financial services generated more revenues than the postal revenues in some post offices. Individuals, local government and businesses started keeping their money with Banco Postal branches. These savings were used to extend credit to rural communities. One of the major reasons behind the success of the Banco Postal was the integration of ICT in its financial services.

4.4 Russia: Strategic alliance as a means to efficiently serve the masses

Russia is the largest country in the world by land size, covering 10 time zones. Russian Post is a state owned entity and provides postal services through 40,000 post offices. In such a dispersed and vast territory, the post office is sometimes the last outpost in terms of access to infrastructure, communications and basic financial services. In order to provide access to the scattered population, Russian Post set up a strategic alliance with a private bank, VTB, in a joint venture to set up the Post Bank in 2016.

It gave both the parties access to Russian Post's vast infrastructure, enabling them to build a large-scale retail business and strengthen their position servicing the mass scale segment. The Post Bank works like a conventional bank and has 19,000 access points. It provides traditional retail banking services like saving deposits, credit cards, consumer loans as well as insurance.

4.5 India: Establishing proximity to foster access for rural clientele

The launch of the National Mission on Financial Inclusion in 2014 turned out to be an excellent avenue for the previously un-served and underserved population of India. Within a few years, the share of people with a bank account doubled to 80 percent, as indicated by the World Bank's 2017 Global Findex Database. In order to further its financial inclusion goals, the government decided to utilize India Post and its massive outreach to provide even better access to its populace.

Initially launched as a pilot project in 2017, the India Post and Payment Banks (IPPB) was formally launched in 2018 with a network of 650 exclusive branches in addition to 136,078 post offices being utilized as banking access points and more than 200,000 postmen doubling up to provide doorstep banking services. It is owned by the Government of India through Department of Post, Ministry of Communication.

At the time of its launch, India had less than 50,000 conventional bank branches in rural areas. Soon after, leveraging its vast network, IPPB managed to increase rural banking infrastructure by 2.5 times. It also reduced the average distance travelled to reach a branch from 5-6 kilometers to 2.5 kilometers. The provision of doorstep services effectively eliminated the need to travel. Here again, the use of ICT proved to be a critical factor in the success of IPPB. By utilizing its physical infrastructure, vast workforce and ICT, IPPB provided modern financial services to people who had never owned a smartphone. By end of March 2019, IPPB had managed to rope in 5.6 million customers.

4.6 Common themes in country experiences

Countries that have experienced a degree of success with postal financial inclusion have used one or more of the following factors to their advantage: technology, strategic partnerships, financial literacy, and access to physical post office infrastructure.

The Japanese model highlights the importance of financial education which creates awareness and promotes savings at a very early age. The data driven Chinese approach is effective in identifying and profiling the underserved and underbanked populace. The post office model in Brazil lays emphasis on reaching out to the rural areas through a mix of literacy program and joint partnership with formal bank. The Russian model demonstrates that synergies between modern financial institutions and the post office outreach can be of mutual benefit, especially when the population is dispersed. In India, a specialized formal postal bank has been established, as in China, to promote financial inclusion and reaching out to the countryside that had remained underserved.

The different financial service models have certain similarities as well. These could prove useful in developing and learning from best practices. All of the countries have utilized the outreach of the post office to enhance financial inclusion in their countries. Except Japan, most of the countries in the study have large geographical area with dense urban cluster existing side by side with large, sparsely populated rural areas. In this backdrop, the outreach of the traditional post office has been tapped to promote national financial inclusion. Moreover, by doing so, they have achieved network expansion, employment creation, mobilization of savings and financial inclusion in underserved areas and non-traditional sectors such as agriculture, along with insurance and mortgage services.

5. Formal business models are readily available for adoption

To expand Pakistan Post's financial business, the business models of post offices need to be studied. A variety of business models have been developed to impart postal financial services in line with key objectives and external and internal factors. (Ansón & Toledano, 2010). External factors and objectives include: the presence of a financial inclusion strategy championed by the government or central bank; the willingness of banks to partner with the post for provision of financial services; the postal regulator's ambition regarding the role of the post; and the general public's trust in the post office, compared to their comfort in dealing with commercial banks. Meanwhile, the internal factors include: in-house knowledge of banking and financial services; the ICT infrastructure; and the physical branch network of the post.

A simplified typology consists of the following business models, or BMs (Clotteau & Measho, 2018):

I. BM0 – 'real estate' provider: an external financial services provider merely rents space in the post office to set up an office or window. The external partner's staff provides financial services. This arrangement is only a source of rental revenue for the post, and its impact on financial inclusion is negligible.

II. BM1 - cash merchant: The post facilitates transactional financial services (cash-in/cash-out) for one or more partners; use cases include remittances, bill payments, mobile payments, account withdrawals/deposits. It is a relatively easy and inexpensive model to deploy. However, ensuring availability of cash across the postal network may be a challenge for some posts, and the fee generated from operations may be low relative to the operational costs.

III. BM2 - proprietary domestic and cross-border payments: The post offers money orders as part of its own domestic or international remittance services (international operations typically in partnership with other posts). Money orders may be paper-based and/or electronic, although a majority of posts across the world have now graduated to electronic transfers.

IV. BM3 - partnership with a financial service provider: Compared to BM1, the post is more involved in this partnership, which could be with a bank, insurance company, mobile network operator or microfinance institution. It may jointly develop specialized products to suit the needs of the postal clientele, and market them in a manner that taps the goodwill and reputation of the post office.

V. BM4 - postal savings bank: The post offers savings accounts and insurance. Typically, the communications regulator monitors its operations. Payment services may be facilitated across multiple platforms, such as ATMs, or using internet and mobile phone services. A key limitation is that the postal savings bank operating in BM4 model is typically not allowed to offer sophisticated financial products, including loans.

VI. BM5 - full-fledged postal bank: In contrast to BM4, the financial regulator directly oversees the extension of account-based services and own insurance provided by the post in this model. A full-fledged postal bank may be authorized to offers loans and other sophisticated financial products to its customers.

6. Prospective directions for Pakistan Post

A number of features of Pakistan Post's business model (up till 2019) appear to be aligned with the BM4 setup. For instance, its operations are overseen by the Ministry of Communication; it offers basic savings accounts and insurance; and it does not offer sophisticated financial products such as loans.

Table 3: NFIS 2023 Headline Targets for Financial Inclusion

Indicator	Position as of Dec-2019	Headline target Jun-2023
Unique Active accounts	38 million*	65 million
Women Accounts	14.4 million*	20 million
Deposit to GDP Ratio	39%	55%

*As of June, 2019

Data source: Ministry of Finance; SBP

In terms of external factors, the push generated by the NFIS and the trust of the general public in the Pakistan Post, especially in rural and remote areas, strengthen the case for expansion of the post office's functions. The NFIS was revisited by the government and its extended 2019-2023 action plan places key importance on leveraging digital financial services (DFS) to promote financial inclusion, including the digitization of the Pakistan Post. As such, the post office can play an important role in achieving the NFIS 2023 headline targets (**Table 3**). That said, the internal factors mentioned earlier, such as in-house knowledge of financial services and ICT infrastructure, may have some weak links that need to be addressed if Pakistan Post ought to expand ambitiously.

The fact remains that the scope of postal services are changing around the world on the back of globalization and ICT advancements. The traditional mail volumes have fallen but post offices have remained relevant as e-commerce in particular has emerged as a major source of revenue for carriers. In addition to conventional services, national governments have made the post office a major part of financial inclusion strategies and used their outreach to tap the financial market by attracting unbanked residents. Pakistan Post, too, could reap financial benefit from this transition.

In particular, the post office can reinvent itself by:

I. Expanding the scope of the Postal Savings Bank: Cross-country data suggests that Pakistan is lagging behind in terms of mobilizing postal savings compared to other emerging economies (**Table 4**). To address the gaps, one way forward is to study the successful strategies adopted by other countries and customizing them to suit the profile of domestic savers. Another alternative is to create a homegrown strategy for the Pakistan Post Savings Bank from the ground up. This exercise might be conducted in collaboration with other stakeholders in the financial sector, including the State Bank of Pakistan. As mentioned earlier, Pakistan Post's business model resembles the BM4 approach. Thus, there may be potential for a phased shift to a BM5 business model, empowering the post to expand into loan offerings and other sophisticated financial products. For instance, basic life insurance is one of the products offered through the Savings Bank. In future, the possibility of adding offerings such as SBP's crop loan and livestock insurance schemes may also be explored (see **Box 2**). By doing so, the extent of financial literacy and job creation in related businesses and finance without pressure on cities would become possible.

Table 4: Selected Data of Postal Savings, 2018

	Number of postal bank accounts	End-of-year assets in postal bank accounts (in million SDR)
South Africa	6,139,198	266
Pakistan	2,151,017	1,001
India	199,451,789	8,808
Korea	20,652,000	44,883
China	1,547,417,136	782,800

Data source: Universal Postal Union

II. Promoting financial literacy among the youth: Taking inspiration from examples like Japan cited earlier, the outreach may incentivize teenagers to practically open and maintain accounts at the Post's savings bank. In doing so, they would develop a comfort with formal savings and engaging with financial institutions from a young age, when habits and mindsets are more open. To nudge the youth in this direction, a scheme could be introduced that anyone appearing for matric exam should have a postal savings account. Discounts could be offered on exam fees paid through this channel to encourage uptake. Over time, this relationship could be strengthened by offering the individuals more specialized products suited to their evolving financial needs.

III. Forming strategic partnerships with commercial banks: As of June 2020, the Pakistan Post had entered into a 20-year strategic alliance with Habib Bank Limited (HBL) – a conventional bank – with the goal of enhancing financial inclusion. Under this arrangement, the Pakistan Post would promote the services of HBL's branchless banking platform, while HBL would invest in the technology, infrastructure and capacity enhancement of the post office. Going forward, there is potential for the post office to establish similar partnerships with Islamic banks. According to a Knowledge, Attitude and Practices (KAP) study conducted by State Bank of Pakistan and the Department for International Development (2014), there is considerable demand for Islamic banking in the country. At the same time, a sizable segment of the population cites religious reasons for the decision to not open a bank account (as seen in Table 2 earlier). Thus, in a strategic alliance, the post office could help disseminate information relating to Islamic banking in general, and the partner bank's offerings in particular. In return, the Islamic bank would have the opportunity to expand its clientele among customers of the Pakistan Post who have shied away from conventional banks on religious grounds.

Box 2: Promoting Agriculture Insurance Schemes from the Platform of the Post Office

SBP's Crop Loan Insurance Scheme (CLIS) provides insurance cover to farmers against natural calamities such as excessive rain, hail-storm, frost, cyclone, flood, drought and crop diseases. It is mandatory for all agri. productions loans of banks/microfinance banks (MFBs) for five major crops (wheat, cotton, rice, sugarcane and maize), with the federal government bearing the cost of premium per crop per season for eligible borrowers. In the Budget 2019-20, an amount of Rs 1 billion was allocated for the crop loan insurance scheme (as part of development expenditure outside PSDP), which underscores the scheme's importance.

As discussed in an earlier SBP report, the CLIS, introduced in 2008, is a 'catastrophe' loss of yield program.[1] This entails that it is activated when a calamity is claimed in an area by authorities and there is over 50 percent of yield loss. When farmers in the affected areas default on loans, the scheme duly compensates the lending institution that extended the agri. loan – hence, there is no direct payout to farmers to compensate for yield loss.

By contrast, a Crop Insurance Program (CIP) rolled out by the government of Punjab does compensate farmers directly in case of yield loss due to pest attacks and/or natural disasters. The CIP links crop insurance with credit lines, and incentivizes farmers to invest in high yielding seeds and fertilizers. Despite this feature though, in its iteration for *Kharif* 2018-19, the scheme's uptake was lower than the initial target, and one of the main reasons was a low level of farmer awareness and understanding about how the CIP could benefit them.

Such awareness gaps may be reduced by offering and promoting the various crop and livestock insurance schemes offered by the central bank and government from the platform of the post office.[2] The intuition is that while small landholders and livestock farmers may have limited exposure and interaction with commercial and microfinance banks, they may nonetheless be more familiar with the local post office.

7. Concluding remarks

Cross-country experience has shown that state-owned postal services can play a vital role in financial inclusion of the underserved and unbanked population, especially in the rural areas. For example, Japan stands out as a prime example of how postal financial inclusion can lead to effective mobilization of savings to finance the country's development, through investment in infrastructure and provision of SME and housing finance.

Similarly, Pakistan Post has significant potential to enhance financial inclusion and mobilize savings in the country due to its widespread outreach. Several business models exist for extension of financial services using the post. Pakistan Post currently facilitates a limited range of basic financial products and services, such as life insurance, money transfer and agency services to CDNS. It has also recently ventured into home delivery of pensions and facilitation of home remittances. In this regard, collaboration of Pakistan Post and NBP for delivery of remittances can act as a transitioning phase between traditional postal services and more modern financial services. Doing so may also help the government to achieve some of the headline targets for financial inclusion set in the extended NFIS 2019-2023.

However, the post may have to address a few weak links first. For one thing, significant improvement in manpower capable of delivering financial services would be required. This is all the more relevant given the country's efforts to strengthen its AML/CFT regime. The Pakistan Post was among the entities flagged in the Asia Pacific Group's 'AML/CFT Mutual Evaluation Report (MER) of Pakistan' for having grave deficiencies. The release of this report in October 2019 was followed by deliberations to significantly restructure the scope and operations of the Pakistan Post. As such, Pakistan Post would have to invest in streamlining its operations to comply with regulatory measures before undertaking any new initiatives to aggressively drive postal financial inclusion going forward.

Secondly, in order to be up to date and to compete with other financial institutions, Pakistan Post would have to invest in its technology infrastructure to stay relevant. Such investment has important and strategic externalities that outweigh the benefits in the long-run. Provision of agriculture and livestock insurance schemes, generating local employment opportunities, and collection of financial data of previously unbanked households are some examples that may motivate investment in this legacy institution. There is a silver lining in these aspects as Pakistan Post can carry out all of this developmental and strategic work through meaningful collaborative efforts and partnerships with various public and private sector entities.

---

[1] For details, see Box 2.1: Punjab Crop Insurance Program – Pilot Project Features and Lessons Learned, published in SBP's Third Quarterly Report for FY19 ('The State of Pakistan's Economy').

[2] The details of various incentive schemes offered by the central bank, including the CLIS and Livestock Insurance Scheme, are available on SBP's website: http://www.sbp.org.pk/Incen-others/index.asp

8. References

[1] Allen, F., Demirguc-Kunt, A., Klapper, L., and Peria, M. S. M. (2012). The foundations of financial inclusion: Understanding ownership and use of formal accounts. The World Bank.

[2] Ansón, J., Berthaud, A., Klapper, L., and Singer, D. (2018). Financial Inclusion and the Role of the Post Office. POSTAL SAVINGS, 7.

[3] Ansón, J. and Toledano, J. (2010, June 2-5). Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There? Paper presented at the 18th Conference on Postal and Delivery Economics, Haikko Manor, Porvoo, Finland. Copyright: Universal Postal Union

[4] Clotteau, N., and Measho, B. (2018). Global Panorama of Postal Financial Inclusion. POSTAL SAVINGS, 36.

[5] Cull, R., Demirgüç-Kunt, A., and Morduch, J. (2009). Microfinance meets the market. Journal of Economic Perspectives, 23(1), 167-92.

[6] Nasution, A. (2018). Postal Savings Bank and Macroeconomic Stability in Asia. POSTAL SAVINGS, 80.

[7] Pakistan Microfinance Network. 2019. Pakistan Microfinance Review 2018. Retrieved from https://pmn.org.pk/wp-content/uploads/2020/04/PMR-2018.pdf

[8] Rillo, A. D., and Miyamoto, J. (2016). Innovating financial inclusion: Postal savings system revisited.

[9] State Bank of Pakistan and Department for International Development. (2014). Knowledge, Attitude and Practices of Islamic Banking in Pakistan. Retrieved from http://www.sbp.org.pk/publications/Kap.htm

[10] Xu, X. (2019). Trust and financial inclusion: A cross-country study. Finance Research Letters, 101310.

[11] Yoshino, N., Helble, M., Takeda, A., and Shimazaki, S. (2018). Postal Savings and Financial Inclusion in Japan. POSTAL SAVINGS, 268.